

STERLING TOWN
FINANCIAL STATEMENTS
JUNE 30, 2005

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Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

Honorable Mayor and Town Council
Sterling Town
Sterling, Utah 84665


We have compiled the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Sterling Town as of and for the year ended June 30, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion, or any other form of assurance, on them.

As described in Note 1 to the basic financial statements, the Town adopted Governmental Accounting Standards Board Statements No. 33 and 34 and GASB interpretation 6 as of and for the year ending June 30, 2005.

The management's discussion and analysis and budgetary comparison information, on pages 4 through 15 and 43 through 45, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Respectfully submitted,


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

December 6, 2005
Richfield, Utah

**STERLING TOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2005**

This discussion of Sterling Town's financial performance provides an overview of the Town's financial activities for the year ending June 30, 2005. This report is in conjunction with the Town's financial statements.

The purpose of the Town is to provide general services to its residents which includes general government, public safety, highways and public improvements, and culture and recreation.

Financial Highlights

- * The assets of the Town exceeded its liabilities as of the close of the year by \$1,136,452 (net assets). Of this amount, \$35,095 (unrestricted net assets) which may be used to meet its ongoing obligations to citizens and creditors.
- * The government's total net assets decreased by \$40,138. The revenues were less than the adopted budgeted amounts, and expenditures were less than the adopted budgeted amounts in the general fund.
- * At the close of the current year, the Town's governmental funds reported ending fund balance of \$38,394, a decrease of \$30,839 in comparison with the prior year. Approximately 57 percent of this total amount, \$21,817 is available for spending at the government's discretion (unreserved fund balance).
- * At the end of the current year, unreserved fund balance for the general fund was \$21,817, or 24 percent of total general fund expenditures.
- * The Town's total debt decreased by \$10,895 during the current year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

STERLING TOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Town include general government, public safety, highways and public improvements, parks and recreation, and airports. The business-type activities of the Town are water operations.

Refer to the table of contents for the location of the government-wide financial statements.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and enterprise funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balance of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditure, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Sterling Town maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund,

The Town adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with those budgets.

Refer to the table of contents for the location of the basic governmental fund financial statements.

Proprietary Funds

Sterling Town maintains one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements.

STERLING TOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005

Proprietary Funds - continued.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, garbage and landfill.

Refer to the table of contents for the location of the basic proprietary fund financial statements.

Notes To The Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Sterling Town, assets exceeded liabilities by \$1,136,452 at the close of the most recent fiscal year. By far the largest portion of the Town's net assets (94 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Town's net assets (3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$35,095, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the year, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

STERLING TOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005

Sterling Town's Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>
Current and Other Assets	38,394	27,698	66,092
Capital Assets	<u>178,000</u>	<u>1,065,694</u>	<u>1,243,694</u>
Total Assets	<u>216,394</u>	<u>1,093,392</u>	<u>1,309,786</u>
Long-Term Liabilities	-	162,246	162,246
Other Liabilities	<u>-</u>	<u>11,088</u>	<u>11,088</u>
Total Liabilities	<u>-</u>	<u>173,334</u>	<u>173,334</u>
Net Assets:			
Invested in Capital Assets			
Net of Related Debt	178,000	892,360	1,070,360
Restricted	16,577	14,420	30,997
Unrestricted	<u>21,817</u>	<u>13,278</u>	<u>35,095</u>
Total Net Assets	<u>216,394</u>	<u>920,058</u>	<u>1,136,452</u>

Because this is the first year the Town has presented GASB 34 a two year comparison is not shown.

Governmental Activities

Governmental activities decreased the Town's net assets by \$21,811.

STERLING TOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005

Sterling Town Changes in Net Assets

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>
Revenues:			
Program Revenues:			
Charges for Services	3,694	21,554	25,248
Operating Grants	12,948	-	12,948
General Revenues:			
Property Taxes	8,147	-	8,147
Other Taxes	24,654	-	24,654
Other Revenues	2,710	-	2,710
Unrestricted Investment Earnings	<u>6,139</u>	<u>238</u>	<u>6,377</u>
Total Revenues	<u>58,292</u>	<u>21,792</u>	<u>80,084</u>
Expenses:			
General Government	21,494	-	21,494
Public Safety	8,687	-	8,687
Highways and Public Improvements	36,637	-	36,637
Culture and Recreation	13,285	-	13,285
Interest on Long-Term Debt	-	2,225	2,225
Water Expenses	<u>-</u>	<u>37,894</u>	<u>37,894</u>
Total Expenses	<u>80,103</u>	<u>40,119</u>	<u>120,222</u>
Increase in Net Assets Before Transfers	(21,811)	(18,327)	(40,138)
Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Increase in Net Assets	(21,811)	(18,327)	(40,138)
Net Assets - Beginning	<u>238,205</u>	<u>938,385</u>	<u>1,176,590</u>
Net Total Net Assets	<u>216,394</u>	<u>920,058</u>	<u>1,136,452</u>

STERLING TOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005

- * The Town received operating grants of \$12,948. Of this amount, \$12,948 was received for Class C Roads and liquor law allotments.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Business-Type Activities

Business-type activities decreased the Town's net assets by \$18,327. No operating grants were received.

- * The total increase in the business-type activities costs for the water fund is attributed to increased operating costs.
- * The depreciation in the enterprise funds remained the same as the prior year.

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

At the end of the year, the Town's governmental fund (general fund) reported ending fund balances of \$27,117, an decrease of \$32,282 in comparison with the prior year. Approximately 80 percent of this amount (\$21,817) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund bund is *reserved* to indicate that it is not available for new spending because it has already been committed to Class C Roads for \$5,300.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 24 percent of total general fund expenditures, while total fund balance represents 30 percent of that same amount.

Proprietary Funds

The Town's proprietary fund provides the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net assets of the water fund at the end of the year was \$13,278.

**STERLING TOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005**

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget.

Actual revenues were less than budgeted revenues by \$13,251 and actual expenditures were more than budgeted expenditures by \$19,031 resulting in a net decrease in fund balance of \$32,282.

Capital Asset and Debt Administration

Capital Assets

Sterling Town's investment in capital assets for its governmental activities as of June 30, 2005, was \$178,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment and infrastructure, which includes roads and highways.

The Town made \$40,000 investment in capital assets during the year.

Because this is the first year the Town has presented GASB 34, a two year comparison is not shown.

**Sterling Town's Capital Assets
(net of depreciation)**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>
Land	23,800	62,662	86,462
Water Shares	-	52,600	52,600
Infrastructure	27,000	-	27,000
Buildings	108,600	4,636	113,236
Improvements Other than Buildings	-	941,404	941,404
Equipment	<u>18,600</u>	<u>4,392</u>	<u>22,992</u>
Total	<u>178,000</u>	<u>1,065,694</u>	<u>1,243,694</u>

Additional information on the Town's capital assets can be found in the notes to the financial statements.

STERLING TOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005

Long -Term Debt

At the end of the current year, the Town's had total bonded debt outstanding of \$173,334. The debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

Sterling Town's Long-Term Debt

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>
Revenue Bonds	<u>-</u>	<u>173,334</u>	<u>173,334</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 12 percent of its total fair market value of taxable property in the Town. The Town has no general obligation debt.

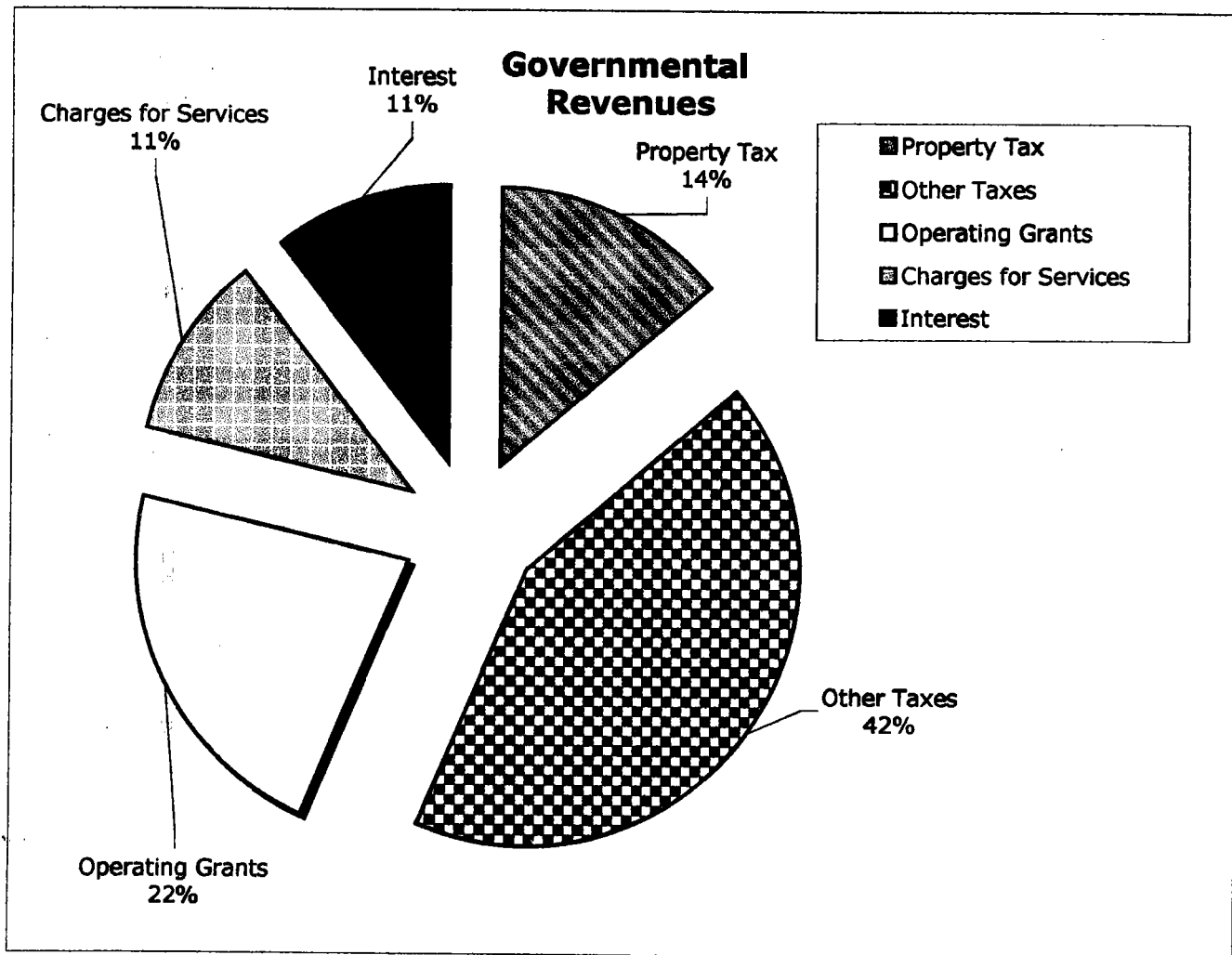
Additional information on Sterling Town's long-term debt can be found in the notes of the financial statements.

Request for Information

This financial report is designed to provide a general overview of Sterling Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sterling Town Clerk, 110 West 100 North, Sterling, Utah, 84665.

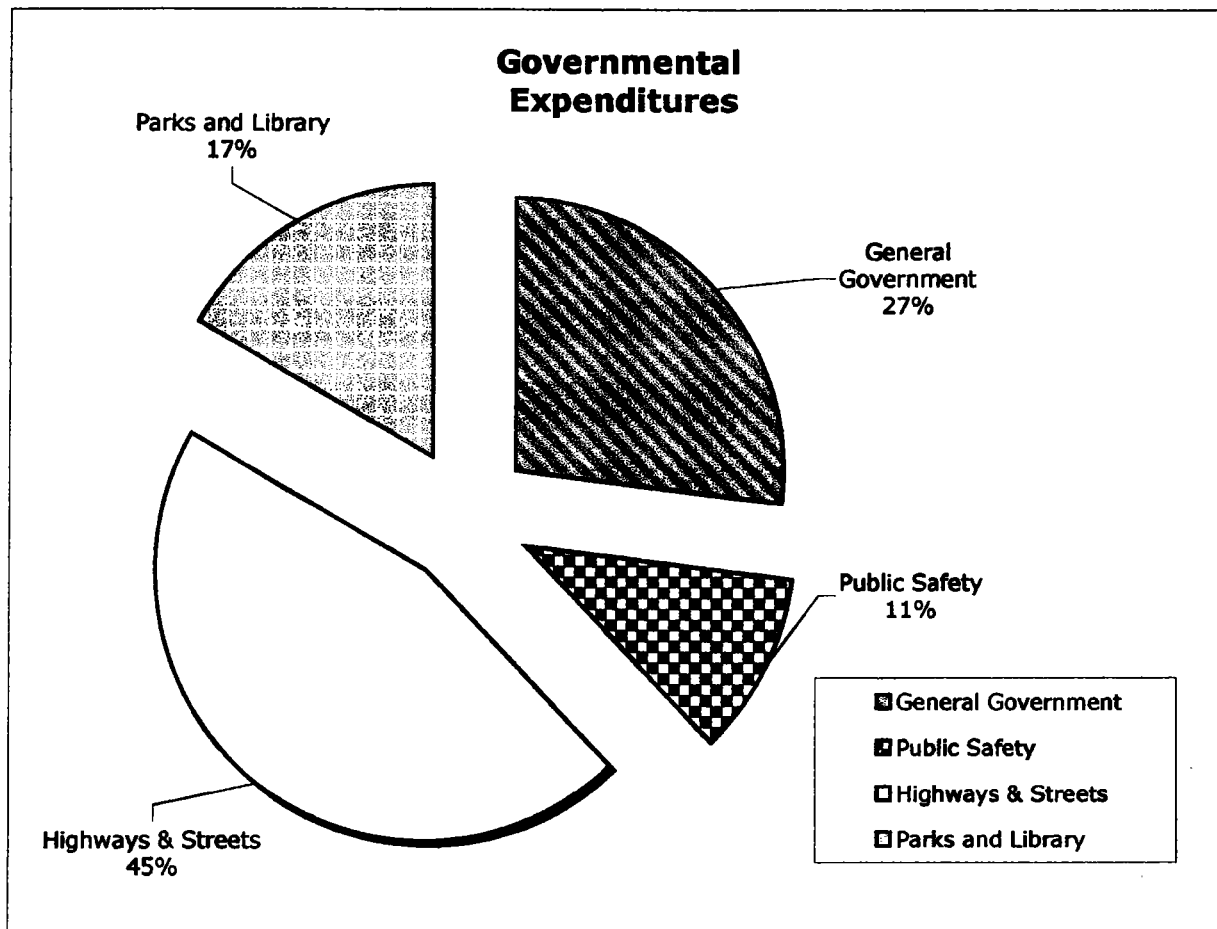
**Sterling Town
Governmental Revenues
For The Fiscal Year Ended June 30, 2005**

Property Tax	8,147
Other Taxes	24,654
Operating Grants	12,948
Charges for Services	6,404
Interest	<u>6,139</u>
Total	<u>58,292</u>



**Sterling Town
Governmental Expenditures
For The Fiscal Year Ended June 30, 2005**

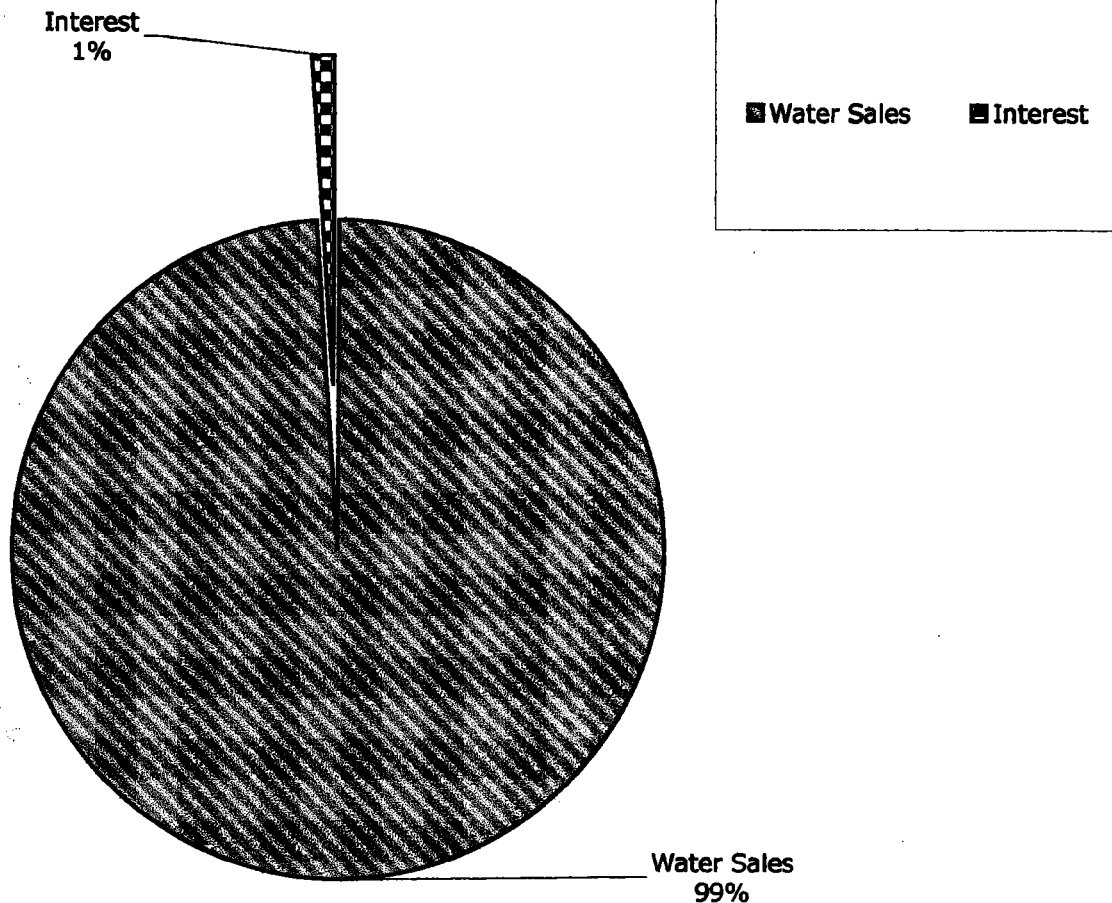
General Government	21,494
Public Safety	8,687
Highways & Streets	36,637
Parks and Library	<u>13,285</u>
Total	<u><u>80,103</u></u>



**Sterling Town
Proprietary Fund Revenues
For The Fiscal Year Ended June 30, 2005**

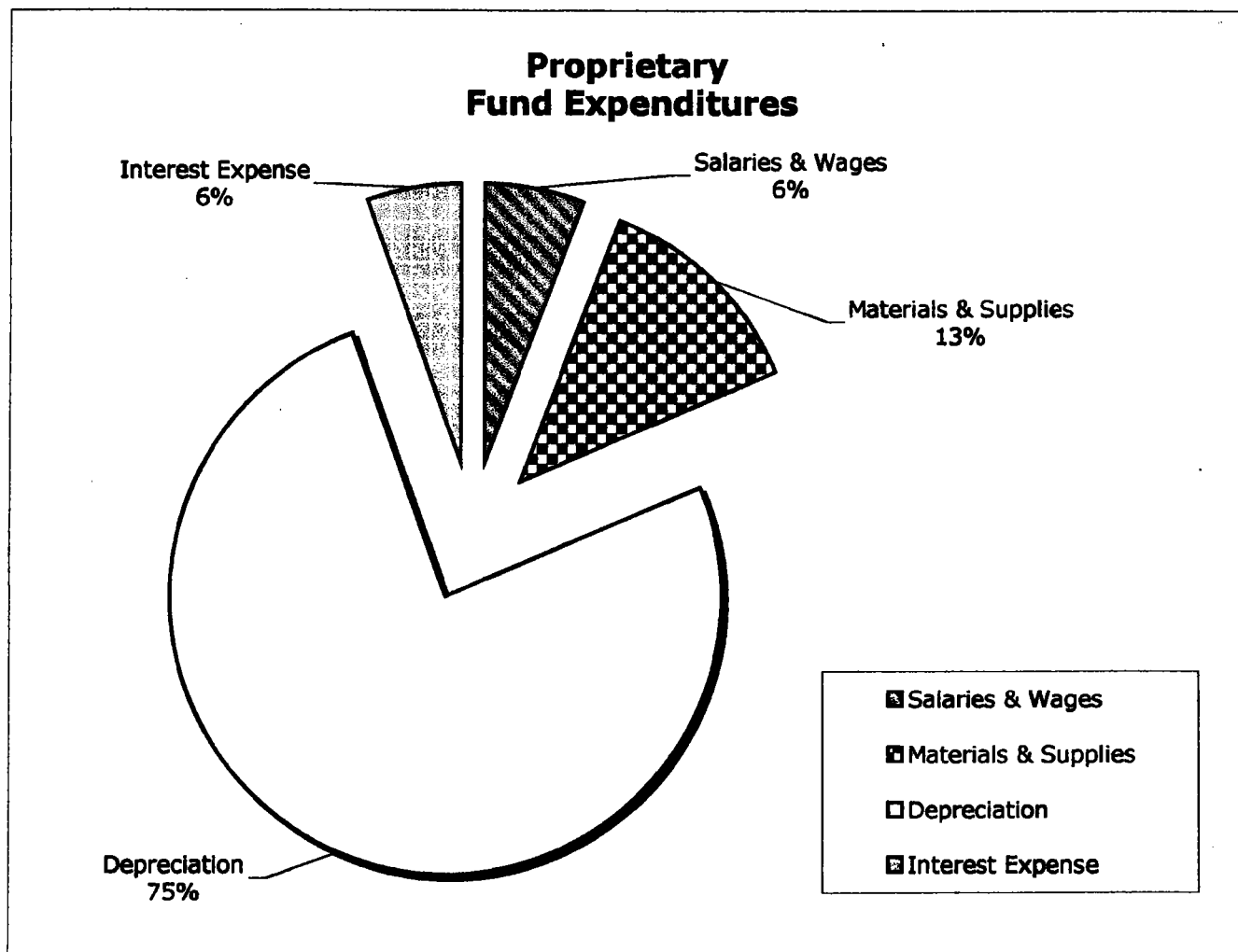
Water Sales	21,514
Interest	238
Total	<u>21,752</u>

**Proprietary
Fund Revenues**



Sterling Town
Proprietary Fund Expenditures
For The Fiscal Year Ended June 30, 2005

Salaries & Wages	2,357
Materials & Supplies	5,073
Depreciation	30,464
Interest Expense	<u>2,225</u>
Total	<u><u>40,119</u></u>



(This page contains no information and
is used to assist in formatting, for easier reading)

BASIC FINANCIAL STATEMENTS

**STERLING TOWN
STATEMENT OF NET ASSETS**

June 30, 2005

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	36,479	9,830	46,309
Accounts Receivable (Net)	-	1,700	1,700
Notes Receivable	-	1,748	1,748
Due From Other Government Units	1,915	-	1,915
Total Current Assets	38,394	13,278	51,672
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	-	14,420	14,420
Capital Assets (Net of Accumulated Depreciation):			
Land	23,800	62,662	86,462
Water Rights	-	52,600	52,600
Buildings	108,600	4,636	113,236
Equipment	18,600	4,392	22,992
Water Systems	-	941,404	941,404
Infrastructure	27,000	-	27,000
Total Noncurrent Assets	178,000	1,080,114	1,258,114
TOTAL ASSETS	216,394	1,093,392	1,309,786
LIABILITIES			
Current Liabilities:			
Revenue Bonds Payable - Due Within One Year	-	11,088	11,088
Noncurrent Liabilities:			
Revenue Bonds Payable - Due More Than One Year	-	162,246	162,246
TOTAL LIABILITIES	-	173,334	173,334
NET ASSETS			
Investment in Capital Assets, Net of Debt	178,000	892,360	1,070,360
Restricted For:			
Class C Road	5,300	-	5,300
Bond Retirement	-	14,420	14,420
Perpetual Care	11,277	-	11,277
Unrestricted	21,817	13,278	35,095
TOTAL NET ASSETS	216,394	920,058	1,136,452
TOTAL LIABILITIES AND NET ASSETS	216,394	1,093,392	1,309,786

The notes to the financial statements are an integral part of this statement.

**STERLING TOWN
STATEMENT OF ACTIVITIES**

For The Fiscal Year Ended June 30, 2005

Function/Programs Primary Government:	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants/Capital Grants/ Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General Government	21,494	3,694	-	(17,800)	-	(17,800)
Public Safety	8,687	-	569	(8,118)	-	(8,118)
Highways and Public Improvements	36,637	-	12,379	(24,258)	-	(24,258)
Culture and Recreation	13,285	-	-	(13,285)	-	(13,285)
Interest on Long-Term Debt	-	-	-	-	(2,225)	(2,225)
Total Governmental Activities	80,103	3,694	12,948	(63,461)	(2,225)	(65,686)
Business-Type Activities:						
Water Systems	37,894	21,554	-	-	(16,340)	(16,340)
Total Primary Government	117,997	25,248	12,948	(63,461)	(18,565)	(82,026)
General Revenues:						
Property Taxes				5,999	-	5,999
Fee-In-Lieu of Property Taxes				2,148	-	2,148
Sales Taxes				24,654	-	24,654
Perpetual Care				1,443	-	1,443
Unrestricted Investment Earnings				6,139	238	6,377
Sale of Fixed Assets				1,267	-	1,267
Total General Revenues and Transfers				41,650	238	41,888
Change in Net Assets				(21,811)	(18,327)	(40,138)
Net Assets - Beginning				238,205	938,385	1,176,590
Net Assets - Ending				216,394	920,058	1,136,452

See accompanying notes and accountant's report.

**STERLING TOWN
BALANCE SHEET
GOVERNMENTAL FUNDS**

For The Fiscal Year Ended June 30, 2005

	<u>General Fund</u>	<u>Nonmajor Perpetual Care Permanent Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	25,202	11,277	36,479
Due From Other Government Units	<u>1,915</u>	<u>-</u>	<u>1,915</u>
TOTAL ASSETS	<u><u>27,117</u></u>	<u><u>11,277</u></u>	<u><u>38,394</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Reserved For:			
Class "C" Road	5,300	-	5,300
Perpetual Care	-	11,277	11,277
Unreserved, Reported In:			
General Fund	<u>21,817</u>	<u>-</u>	<u>21,817</u>
Total Fund Balance	<u><u>27,117</u></u>	<u><u>11,277</u></u>	<u><u>38,394</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>27,117</u></u>	<u><u>11,277</u></u>	<u><u>38,394</u></u>

The notes to the financial statements are an integral part of this statement.

STERLING TOWN
BALANCE SHEET RECONCILIATION TO STATEMENT OF NET ASSETS

June 30, 2005

Total Fund Balances - Governmental Fund Types	38,394
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported in the funds:

Land	23,800
Buildings	108,600
Equipment	18,600
Infrastructure	<u>27,000</u>

Total	<u>178,000</u>
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Net Assets of Government Activities	<u><u>216,394</u></u>
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STERLING TOWN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For The Fiscal Year Ended June 30, 2005

	General Fund	Nonmajor Perpetual Care Permanent Fund	Total Governmental Funds
Revenues:			
Taxes	32,801	-	32,801
Licenses and Permits	345	-	345
Intergovernmental Revenue	12,948	-	12,948
Charges for Services	462	-	462
Interest	6,139	-	6,139
Perpetual Care	-	1,443	1,443
Miscellaneous Revenues	4,154	-	4,154
	<u>56,849</u>	<u>1,443</u>	<u>58,292</u>
Total Revenues			
	<u>56,849</u>	<u>1,443</u>	<u>58,292</u>
Expenditures:			
Current:			
General Government	21,420	-	21,420
Public Safety	7,987	-	7,987
Highways and Public Improvements	33,037	-	33,037
Culture and Recreation	11,485	-	11,485
Capital Outlay	15,202	-	15,202
	<u>89,131</u>	<u>-</u>	<u>89,131</u>
Total Expenditures			
	<u>89,131</u>	<u>-</u>	<u>89,131</u>
Net Change In Fund Balance	(32,282)	1,443	(30,839)
Fund Balance - Beginning	59,399	9,834	69,233
Fund Balance - Ending	<u>27,117</u>	<u>11,277</u>	<u>38,394</u>

The notes to the financial statements are an integral part of this statement.

STERLING TOWN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities
are different because:

Net Changes in Fund Balances - Total Governmental Funds	(30,839)
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Governmental funds report capital outlays as expenditures. However, in
the statement of activities the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense. This is the
amount by which capital outlays exceeded depreciation in the current period:

Capital Outlay	18,528	
Depreciation Expense	<u>(9,500)</u>	
Total		9,028

Changes In Net Assets of Governmental Activities	<u><u>(21,811)</u></u>
--	------------------------

**STERLING TOWN
STATEMENT OF NET ASSETS
PROPRIETARY FUND**

June 30, 2005

	Business-Type Activity Enterprise Water Fund
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	9,830
Due From Other Governments	1,700
Note Receivable	1,748
Total Current Assets	<u>13,278</u>
Noncurrent Assets:	
Investments - Restricted:	
Bond Retirement	14,420
Capital Assets: (Net of Accumulated Depreciation)	
Land	62,662
Water Rights	52,600
Buildings	4,636
Water System	941,404
Equipment	4,392
Total Noncurrent Assets	<u>1,080,114</u>
TOTAL ASSETS	<u><u>1,093,392</u></u>
LIABILITIES:	
Current Liabilities:	
Bonds Payable - Due Within One Year	11,088
Noncurrent Liabilities:	
Bonds Payable - Due More Than One Year	<u>162,246</u>
TOTAL LIABILITIES	<u>173,334</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	892,360
Restricted for Bonded Retirement	14,420
Unrestricted	13,278
TOTAL NET ASSETS	<u>920,058</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>1,093,392</u></u>

The notes to the financial statements are an integral part of this statement.

STERLING TOWN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND

June 30, 2005

	Business-Type Activity Enterprise Water Fund
Operating Revenues:	
Charges for Sales and Services:	
Fees	21,514
Other	40
	<u>21,554</u>
Total Operating Revenues	
	<u>21,554</u>
Operating Expenses:	
Salaries and Wages	2,357
Materials and Supplies	5,073
Depreciation	30,464
	<u>37,894</u>
Total Operating Expenses	
	<u>37,894</u>
Operating Income	<u>(16,340)</u>
Nonoperating Revenues (Expenses):	
Investment Earnings	238
Interest Expense	(2,225)
	<u>(1,987)</u>
Total Nonoperating Revenues (Expenses)	
	<u>(1,987)</u>
Change in Net Assets	(18,327)
Total Net Assets - Beginning	<u>938,385</u>
Total Net Assets - Ending	<u><u>920,058</u></u>

The notes to the financial statements are an integral part of this statement.

**STERLING TOWN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

June 30, 2005

	Business-Type Activity Enterprise <u>Water Fund</u>
Cash Flows From Operating Activities:	
Receipts From Customers	22,296
Payments to Suppliers	(5,073)
Payments to Employees	<u>(2,357)</u>
Net Cash Provided by Operating Activities	<u>14,866</u>
Cash Flows From Capital and Related Financing Activities:	
Principal Paid on Capital Debt	(10,895)
Interest Paid on Capital Debt	(2,225)
Capital Outlay	<u>(20,000)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(33,120)</u>
Cash Flows from Investing Activities:	
Interest Received	<u>238</u>
Net Cash Provided (Used) by Investing Activities	<u>238</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(18,016)
Cash and Cash Equivalents - Beginning	<u>42,266</u>
Cash and Cash Equivalents - Ending	<u><u>24,250</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities:	
Operating Income	<u>(16,340)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) By Operating Activities:	
Depreciation	30,464
Increase (Decrease) in Operating Assets:	
Notes Receivable	<u>742</u>
Total Adjustments	<u>31,206</u>
Net Cash Provided (Used) by Operating Activities	<u><u>14,866</u></u>

The notes to the financial statements are an integral part of this statement.

**STERLING TOWN
NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Sterling Town conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

The accompanying basic financial statements present the financial position of various fund types and the results of operations of the various fund types. The basic financial statements are presented for the year ended June 30, 2005.

The following is a summary of the more significant policies:

A. Reporting Entity

Sterling Town is a municipal corporation in Sanpete County, Utah. It is governed by an elected Mayor and four member board. As required by generally accepted accounting principles, these financial statements are of the primary government, Sterling Town, the reporting entity. The Town has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Sterling Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government also reports the following non-major governmental fund:

The Perpetual Care Permanent Fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the cemetery.

The Government reports the following Proprietary Funds:

The Utility Funds accounts for the activities of the Town water operations. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments:

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

**STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Water System	40 Years
Buildings	40 Years
Equipment	10 Years

Long-Term Obligations:

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

In the fund financial statement, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, if any, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

E. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Budgets and Budgetary Accounting:

The governing body of the entity shall establish the time and place of the public hearing to consider the adoption of the budget and shall publish notice of the hearing at least seven days prior to the hearing (no time period given for towns) in at least one issue of the newspaper of general circulation published within the County in which the entity is located. If no such newspaper is published, the required notice may be posted in three public places within the entity's jurisdiction.

STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The tentative budget must be made available to the public for inspection for a number of days, as provided by law, prior to the budget hearing.

1. On or before the first regularly scheduled meeting of the Town Board in the month of May, the mayor prepares a tentative budget for the next budget year.
2. After a public notice has been published, a public hearing is then held on the adoption of the budget.
3. After the public hearing, the Town Board makes final adjustments to the tentative budget.
4. On or before June 22, the Town Board adopts the budget by resolution or ordinance and sets the tax rate for taxes.
5. The budget officer may transfer unexpended budgeted amounts within departments.
6. The Town Board may transfer unexpended budgeted amounts from one department in a fund to another department in the same fund by resolution.
7. The total budget appropriation of any governmental fund may be increased only after a public hearing has been held and followed by resolution of the Town Board.
8. Proprietary Fund budgets may be increased without a public hearing by resolution of the Town Board.
9. Budgets for the General fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

The appropriated budget is prepared by fund, function and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level.

The Fiscal Procedures Act for Utah Towns require local municipalities to restrict expenditures to authorized departmental budgets. The combined statement of revenues, expenditures and changes in fund balance - budget and actual identifies the departments and funds which have overexpended budgeted amounts if any and, therefore, do not comply with appropriate fiscal procedures.

**STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Property Tax Calendar

January 1	Lien Date - All property appraised based upon situs and status as of this date (real and personal).
March 1	Calendar year taxing entities must inform the County of the date, time and place of the budget hearing for the next fiscal year for inclusion with tax notice.
June 22	All taxing entities to adopt tentative budgets and proposed tax rates and report them to the county auditor.
July 22	County auditor to prepare and mail Notice of Valuation and Tax Changes to all real property owners, including centrally assessed property owners or in the event that Notices of Valuation and Tax Changes are not required, the county auditor is to compute taxes and the county treasurer is to mail tax notices.
September 1	State Tax Commission approves tax rates.
November 1	County auditor is to deliver the equalized assessment roll to the county treasurer with affidavit.
November 1	County auditor to charge the county treasurer to account for all taxes levied.
November 1	County treasurer to mail tax notices. Tax notices for calendar year entities include notice of budget hearings.
November 30	Taxes on real property become delinquent.

NOTE 2 - DEPOSITS AND INVESTMENTS

Cash and investments as of June 30, 2005, consist of the following:

	<u>Fair Value</u>
Demand Deposits - Checking	29,794
Investment - PTIF	<u>30,935</u>
Total Cash and Investments	<u><u>60,729</u></u>

STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Governmental Activities	36,479
Business-Type Activities - Unrestricted	9,830
Business-Type Activities - Restricted	<u>14,420</u>
Total Cash and Cash Equivalents	<u><u>60,729</u></u>

The Utah Money Management Act (UMMA) established specific requirements regarding deposits of public funds by public treasurers. UMMA requires that Town funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invest in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by the Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposit and Investment Risk:

The Town maintains no investment policy containing any specific provisions intended to limit the Town's exposure to interest rate risk, credit risk and concentration of credit risk other than that imposed by UMMA. The Town's compliance with the provisions of UMMA addressed each of these risks.

Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. All deposits and investment of the Town are available immediately.

STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. All of the Town's demand deposits are covered by FDIC insurance.

Custodial credit risk for investment is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. This risk is addressed through the policy of investing excess monies only in PTIF.

Concentration of Credit Risk:

Concentration of credit risk the risk of loss attributed to the magnitude of a government's investments in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

NOTE 3 - BOND RESERVES

Bond Reserve Fund - FHA Water Revenue Bond:

The Town of Sterling is required to deposit into a bond reserve fund. The required amount to be funded is \$2,892. As of June 30, 2005, the reserve is fully funded.

Debt Service Reserve Fund - CIB Water Revenue Bond:

Beginning April 1, 1998, and continuing each month one twelfth of the annual bond payment of \$5,228 is required to be reserved until the total payment is accrued. Balance at June 30, 2005, is \$2,616.

Bond Fund Reserve - CIB Water Revenue Bond:

Payments of \$72.62 are required to be reserved for seventy-two (72) consecutive months until it reaches a balance of \$5,228. Balance at June 30, 2005, is \$4,747.

Bond Fund Reserve - CIB Water Revenue Bond:

Beginning July 1, 2001, the Town is required to deposit into a bond reserve fund the amount of \$69.44 for seventy-two (72) consecutive months until a maximum deposit of \$5,000 is reached. The balance at June 30, 2005, is \$4,165.

Total balance in bond reserves at June 30, 2005, is \$14,420.

**STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2005

NOTE 4 - IMPACT FEES - WATER

Effective January 19, 2000, the Town adopted an impact fee ordinance for water as follows:

Except as provided in the ordinance and any amendment to the ordinance the Town will impose impact fees as a condition of approval of all new development projects. No tentative or final subdivision map, parcel map, grading permit, building permit, final inspection, or certificate of occupancy, or other development permit, may be approved unless the impact fee has been imposed.

Until and unless modified by a subsequent resolution by the Town Council, an impact fee of \$1,600 shall be imposed with respect to any new development to be connected to the system.

The Town is required to place these impact fees into a separate interest bearing account and May expend these funds only on capital improvements, retiring debt fro the system, or other expenditures as allowed by law.

These funds must be expended within six years from receipt or the funds must be returned with interest to the payer.

One impact fee was collected and expended during the year. The balance of impact fees at year end was \$0.00.

NOTE 5 - NOTES RECEIVABLE

In September of 1997, the Town completed a water project and added additional lines for individuals outside the Town. These individuals were allowed to pay for the additions by financing with the Town. The amount financed carries an interest rate of 5%. Payments and interest began on January 1, 1998.

	<u>Amount of Payment</u>	<u>Number of Payments</u>	<u>Balance June 30, 2005</u>
Cedar Crest Bed and Breakfast Inn	71.06	120	<u>1,748</u>

STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	15,000	-	-	15,000
Land Related to Infrastructure	<u>8,800</u>	<u>-</u>	<u>-</u>	<u>8,800</u>
 Total Capital Assets Not Being Depreciated	 <u>23,800</u>	 <u>-</u>	 <u>-</u>	 <u>23,800</u>
 Capital Assets Being Depreciated:				
Buildings	96,000	40,000	-	136,000
Machinery and Equipment	31,000	-	-	31,000
Infrastructure	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>60,000</u>
 Total Capital Assets Being Depreciated	 <u>187,000</u>	 <u>40,000</u>	 <u>-</u>	 <u>227,000</u>
 Less Accumulated Depreciation For:				
Buildings	24,000	3,400	-	27,400
Machinery and Equipment	9,300	3,100	-	12,400
Infrastructure	<u>30,000</u>	<u>3,000</u>	<u>-</u>	<u>33,000</u>
 Total Accumulated Depreciation	 <u>63,300</u>	 <u>9,500</u>	 <u>-</u>	 <u>72,800</u>
 Total Capital Assets Being Depreciated (Net)	 <u>123,700</u>	 <u>30,500</u>	 <u>-</u>	 <u>154,200</u>
 Governmental Activities Capital Assets, Net	 <u>147,500</u>	 <u>30,500</u>	 <u>-</u>	 <u>178,000</u>

STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 6 - CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business Type Activities:				
Capital Assets Not Being Depreciated:				
Land	62,662	-	-	62,662
Water Stock	<u>52,600</u>	<u>-</u>	<u>-</u>	<u>52,600</u>
 Total Capital Assets Not Being Depreciated	 <u>115,262</u>	 <u>-</u>	 <u>-</u>	 <u>115,262</u>
 Capital Assets Being Depreciated:				
Buildings	10,891	-	-	10,891
Equipment	4,500	-	-	4,500
Utility Systems	<u>1,205,465</u>	<u>20,000</u>	<u>-</u>	<u>1,225,465</u>
 Total Capital Assets Being Depreciated	 <u>1,220,856</u>	 <u>20,000</u>	 <u>-</u>	 <u>1,240,856</u>
 Less Accumulated Depreciation For:				
Buildings	5,983	272	-	6,255
Equipment	54	54	-	108
Utility Systems	<u>253,923</u>	<u>30,138</u>	<u>-</u>	<u>284,061</u>
 Total Accumulated Depreciation	 <u>259,960</u>	 <u>30,464</u>	 <u>-</u>	 <u>290,424</u>
 Total Capital Assets Being Depreciated (Net)	 <u>960,896</u>	 <u>(10,464)</u>	 <u>-</u>	 <u>950,432</u>
 Business Type Activities Capital Assets, Net	 <u>1,076,158</u>	 <u>(10,464)</u>	 <u>-</u>	 <u>1,065,694</u>
 Total Capital Assets	 <u><u>1,223,658</u></u>	 <u><u>20,036</u></u>	 <u><u>-</u></u>	 <u><u>1,243,694</u></u>

STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 7 - LONG-TERM DEBT

Bonds Payable:

Farmers Home Administration - 1980, 5%, Water Revenue Bonds

The following is a summary of debt service charges to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	1,855	1,037	2,892
2006-2007	1,947	945	2,892
2007-2008	2,045	847	2,892
2008-2009	2,147	745	2,892
2009-2010	2,254	638	2,892
2011-2015	<u>13,086</u>	<u>1,367</u>	<u>14,453</u>
Total	<u>23,334</u>	<u>5,579</u>	<u>28,913</u>

Permanent Community Impact Board - 1997, 2.5%, Water Revenue Bonds

The following is a summary of debt service charges to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	4,233	995	5,228
2006-2007	4,339	889	5,228
2007-2008	4,448	780	5,228
2008-2009	4,559	669	5,228
2009-2010	4,673	555	5,228
2011-2015	<u>17,748</u>	<u>954</u>	<u>18,702</u>
Total	<u>40,000</u>	<u>4,842</u>	<u>44,842</u>

Permanent Community Impact Board - 2001, 0%, Water Revenue Bonds

In March of 2001 the Town of Sterling issued bonds in the amount of \$130,000 to the Community Impact Board. The bonds carry a 0% interest rate and require annual payments of \$5,000 due October 1st of each year beginning in 2001 until the year 2021 when \$6,000 will be required over the next 4 years.

STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 7 - LONG-TERM DEBT (CONTINUED)

The following is a summary of debt service charges to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	5,000	-	5,000
2006-2007	5,000	-	5,000
2007-2008	5,000	-	5,000
2008-2009	5,000	-	5,000
2009-2010	5,000	-	5,000
2011-2015	25,000	-	25,000
2016-2020	25,000	-	25,000
2021-2025	29,000	-	29,000
2026-2030	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Total	<u>110,000</u>	<u>-</u>	<u>110,000</u>

The following is a amortization of total bonds payable:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-2006	11,088	2,032	13,120
2006-2007	11,286	1,834	13,120
2007-2008	11,493	1,627	13,120
2008-2009	11,706	1,414	13,120
2009-2010	11,927	1,193	13,120
2011-2015	55,834	2,321	58,155
2016-2020	25,000	-	25,000
2021-2025	29,000	-	29,000
2026-2030	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Total	<u>173,334</u>	<u>10,421</u>	<u>183,755</u>

STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 7 - LONG-TERM DEBT

The following is a schedule of changes in bonds payable:

Bond Issue:	Date of Issue	Interest Rate	Total Authorized	Outstanding June 30, 2004	Current Year Changes		Outstanding June 30, 2005
					Issued	Matured	
Farmers Home Administration Water Revenue Bonds	1980	5%	49,300	25,100	-	1,766	23,334
Permanent Community Impact Board Water Revenue Bonds	1997	2.5%	66,860	44,129	-	4,129	40,000
Permanent Community Impact Board Water Revenue Bonds	2001	0%	130,000	115,000	-	5,000	110,000
Total Bonds Payable			246,160	184,229	-	10,895	173,334

STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 8 - CLASS "C" ROAD

The following is a schedule of receipts and disbursements in Class "C" Roads:

Balance - Beginning of Year		25,666
Receipts:		
State of Utah	12,378	
Interest	<u>293</u>	
Total Receipts		12,671
Disbursements:		
Road Maintenance		<u>(33,037)</u>
Balance - End of Year		<u><u>5,300</u></u>

NOTE 9 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in the Utah Local Governments Trust. The insurance coverage's are written on a group purchase arrangement. All of the insurance coverage is brokered and written through various insurance companies. Utah Local Government Trust acts as the broker.

Liability:

The Town is insured for \$2,000,000 combined single limit with a \$500 deductible per occurrence for Comprehensive General Liability. Bodily injury, personal injury, property damage, public officials errors and omissions coverage \$2,000,000 aggregate each policy period with a \$500 deductible each accident.

Automobile Liability:

The Town is insured for automobile bodily injury for \$2,000,000 combined single limit per accident with a \$250 deductible each accident. Property damage \$1,000,000 aggregate each policy period. The coverage also covers uninsured motorist \$50,000 each accident and \$50,000 each policy period

Property:

All of the property coverage is insured through Utah Local Government Trust. Buildings and equipment are covered based on appraised value with 80% coinsurance subject to a \$1,000 deductible.

STERLING TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 9 - RISK MANAGEMENT (CONTINUED)

Workers Compensation:

This coverage is provided through the Utah Local Government Trust.

The Town has not experienced any significant reduction in insurance coverage from the previous year nor has it paid any settlements in excess of insurance coverage in the past three fiscal years.

NOTE 10 - UTAH STATE RETIREMENT PLANS

The Town of Sterling does not participate in the Utah State Retirement Plan.

**REQUIRED SUPPLEMENTARY
INFORMATION
"UNAUDITED"**

**STERLING TOWN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance With Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1, 2004	59,399	59,399	59,399	-
Resources (Inflows):				
Taxes:				
General Property Taxes	6,000	6,000	5,726	(274)
Prior Years Taxes	-	-	273	273
General Sales and Use Taxes	30,000	30,000	24,654	(5,346)
Fee-In-Lieu	3,000	3,000	2,148	(852)
Total Taxes	39,000	39,000	32,801	(6,199)
Licenses and Permits:	250	250	345	95
Intergovernmental Revenue:				
Class C Road	20,000	20,000	12,379	(7,621)
State Liquor Allotment	-	-	569	569
Total Intergovernmental Revenue	20,000	20,000	12,948	(7,052)
Charges for Services:				
Cemetery Revenues	4,000	4,000	-	(4,000)
Other General Fees and Charges	-	-	462	462
Total Charges for Services	4,000	4,000	462	(3,538)
Miscellaneous Revenue:				
Interest	1,100	1,100	6,139	5,039
Rents and Concessions	2,500	2,500	1,403	(1,097)
Sale of Fixed Assets	-	-	1,267	1,267
Miscellaneous	250	250	1,484	1,234
Use of Fund Balance	3,000	3,000	-	(3,000)
Total Miscellaneous Revenue	6,850	6,850	10,293	3,443
Amounts Available for Appropriation	129,499	129,499	116,248	(13,251)

**STERLING TOWN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u> <u>(See Note A)</u>	<u>Variance With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Charges to Appropriations (Outflows):				
General Government:				
Administration	17,000	17,000	20,242	(3,242)
Other	2,000	2,000	1,178	822
Total General Government	19,000	19,000	21,420	(2,420)
Public Safety:				
Police Department	-	-	971	(971)
Fire Department	5,600	5,600	7,016	(1,416)
Total Public Safety	5,600	5,600	7,987	(2,387)
Highway and Public Improvements:				
Repairs and Maintenance	20,000	20,000	33,037	(13,037)
Culture and Recreation:				
Recreation	2,500	2,500	-	2,500
Cemetery	4,000	4,000	7,350	(3,350)
Parks	4,000	4,000	4,135	(135)
Total Culture and Recreation	10,500	10,500	11,485	(985)
Capital Outlay	15,000	15,000	15,202	(202)
Total Charges to Appropriations	70,100	70,100	89,131	(19,031)
Budgetary Fund Balance - June 30, 2005	59,399	59,399	27,117	(32,282)

**STERLING TOWN
NOTE A
BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION**

For The Fiscal Year Ended June 30, 2005

	<u>General Fund</u>
Sources/Inflows and Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedules.	116,248
Differences - Budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	<u>(59,399)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u><u>56,849</u></u>
Uses/Outflows of Resources:	
Actual amounts (budgetary Basis "total charges to appropriations" from the budgetary comparison schedules.	89,131
Differences - Budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>89,131</u></u>

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BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION**

For The Fiscal Year Ended June 30, 2005

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